Swiss Banking

Secrecy Within Bounds of Law

It was axiomatic that getting a Swiss banker to talk to anyone not a client is a fiscal oxymoron. However, attitudes have changed and surprisingly to many have been moving toward if not revelation then at least explanation since the mid 1990's. Such candidness was the case with Pasha Bakhtiar of the seventh generation family-owned Lombard Odier Darier Hentsch (LODH) private bank who was keen in an interview recently to communicate the current reality while strictly preserving the absolute client confidentiality.

Traditional public concerns about the secrecy of the dealings of Swiss banks with bemedaled dictators stacking away large sums of cash garnered illegally are, said Bakhtiar, certainly unfounded today and probably were never really justified, Zawya.com reported.

"There are lots of people with large amounts of wealth in the world--but it is practically impossible for these people to do business with Swiss banks, our levels of due diligence are so strict," said Managing Director Bakhtiar of the LODH regional office last week in Dubai. He noted that the trend was going that way before 9/11 as Switzerland did not want to be branded as a facilitator of such deals. "They are making great efforts to show the international community that due diligence requirements are as strict if not stricter than anywhere else in the world. That's the reality today."

He recalled that what had been happening since 9/11 and since well before was that the jobs of bankers and relationship managers had become increasingly difficult due to the numerous criteria--background checking for example--that were a necessary precursor to opening a private Swiss bank account.

"Statistically there is a much higher probability that we will refuse to do business with someone who is clean than accepting business from someone who is not," he said as a measure of how far this process had come. That he said was what usually tended to happen and it was quite frustrating for a large number of bankers and clients who worked in this region. The stereotypes accorded to certain people and common family names frequently came up red-flagged during the vetting procedure.

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LODH has been dealing with clients in the area for about 50 years and used its existing client base to establish new introductions when it opened its new office in Dubai in February 2007.

Far from being in a monopoly banks have been establishing their presences here in large numbers. "We are in a market where the ocean is red," said Bakhtiar. "Every bank though has a different niche."

Given that, and the fact that Saudi Arabia has the biggest economy and the greatest numbers of potential wealthy clients, it is significant that Dubai was the location of choice for Lombard and other banks.

"The majority of our clients from the PGCC do hail from Saudi Arabia, the demographics drive that. They were under way before UAE and Qatar, for example, began their rapid development," said Bakhtiar.

There were several options that made Dubai the attractive choice for establishing the bank's presence: the regulatory environment; ease of finding bankers and staff willing to relocate to Dubai; and the development of Dubai airport as a regional hub. "We can go to practically any country in the PGCC in the morning and be home in the evening--so all these considerations were taken into account," Bakhtiar said.

"Additionally, Dubai has increasingly become a place of transit so everyone in the region tends to come through here several times a year for business or pleasure, so it is easy to conveniently meet clients and keep up the contact. He did not exclude the possibility of opening other offices in the PGCC, that just depended on the regulatory environment and the ease of establishing a presence and access.

Several options made Dubai the attractive choice for establishing the bank's presence, the regulatory environment, ease of finding bankers and staff willing to relocate to Dubai

Bakhtiar thought that the key to establishing private banks anywhere in the PGCC was that central banks needed to be open to issuing licenses to foreign banks, which was not the case for every country in the PGCC. Some are now considering structures and it was becoming easier for foreign institutions to come here.

"We are at the beginning of the process--we shall have to see how it develops," he said.

Concerning tax evasion and avoidance, Bakhtiar said that the whole fiscal question did not apply here in the PGCC. "No one here is concerned with income, wealth or corporate tax, other than zakhat. The argument 'Switzerland is a fiscal haven does not apply here." The emphasis in private banking lay more on the level of service, underlying performance and management of assets to justify doing business with LODH as opposed to any other argument.

The key to the whole private banking business was face-to-face contact and flexibility as a banker to meet clients or potential clients anywhere in the Persian Gulf at any time. "It's really taking this level of service to the extreme and that is something that has been lacking here."

London House Prices Fall

London house prices fell for the first time in a year this month, a sign higher interest rates are cooling Britain's property boom, a Rightmove Plc report showed.

The average asking price for a home in the UK capital slipped 0.1 percent from July, the first drop since August 2006, to 394,268 pounds ($777,575), Britain's biggest real-estate Web site said in a statement today. The survey measured 150,000 properties listed for sale in the four weeks through Aug. 11, Bloomberg reported.

Bank of England policy makers said Britain's housing market had showed ``signs of softening" when they kept their benchmark interest rate at a six-year high this month. A slump in global financial markets may erode confidence further among buyers in London, where demand from bankers has helped drive a tripling of UK home values in the past decade.

``Record prices and high interest rates have stretched the affordability for everyone," Miles Shipside, Rightmove's commercial director, said in an interview. ``Until this stock market turmoil blows over, there is a risk to the housing market, too. Next year, we will see a definite slowdown."

Throughout the UK, house prices rose 0.6 percent in the month to 241,474 pounds, compared with a 0.3 percent gain in July, Rightmove said. On the year, prices rose 12.8 percent, up from 10.3 percent in July.

The central bank left the benchmark rate unchanged at 5.75 percent on Aug. 2 after five increases in the past year.

Prospects of a further move have receded during a credit squeeze caused by the US subprime crisis, which led to the biggest one-day drop for the UK benchmark FTSE-100 stock index in more than four years on Aug. 16. The next day, economists at JPMorgan Chase & Co. and Citigroup Inc. cut their predictions for further rate increases, saying the peak has been reached.

The implied rate on the December UK interest-rate futures contract was 6.03 percent at 8:57 a.m. in London. The contract settles to the three-month London interbank offered rate for the pound, which averaged about 15 basis points more than the central bank benchmark for the past decade.

Higher borrowing costs have made it more expensive for Britons to repay record debts of 1.3 trillion pounds. Homebuyers have also been stretching their finances more than ever to fund purchases, with first-time mortgage borrowers taking out loans at a record median of 3.37 times their annual income in June.

London's Tower Hamlets, one of the five districts in the capital that will host the 2012 Olympic Games, showed the biggest monthly decline in August, with a 6.9 percent price drop. In Kensington and Chelsea, the city's priciest borough, whose residents include bankers, soccer players and film actors, values fell 1 percent to an average of 1,449,385 pounds.

``Prices have certainly shown signs of plateauing," Tim Le Blanc-Smith, a real-estate agent at John D. Wood in London's South Kensington neighborhood, said in an interview. ``A bit of the froth has come off the market."

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Prices still rose 23.4 percent on the year, and more than half of London areas gained on the month. A separate survey released yesterday by real estate broker Knight Frank LLC showed increases in London luxury-home prices accelerated by a record 3.9 percent in July, the biggest monthly increase since the index began in 1976, on demand from wealthy foreigners.

Four out of 10 regions in England and Wales showed price declines in August. Britons trying to sell their properties have adopted ``more reasonable pricing expectations" in the past four months, as increases in home costs have stayed below 1 percent, Rightmove said. Annual gains in values may slow to about 3 or 4 percent, in line with wage inflation, the report said.

Other housing market reports also suggest that prices are cooling. Expectations for UK home prices fell to the lowest since 2005 last month, the Royal Institution of Chartered Surveyors said Aug. 14.

Long-Term Pain Seen for US $

Investors' flight to safe haven assets to escape the global credit and liquidity squeeze of the past weeks has given the US dollar a reprieve from a long-term decline this summer, but capital flows suggest the greenback's weakness will resume when the dust settles.

As easy-financing conditions dry up on signs that losses in the US subprime mortgage market are being felt as far away as Europe and Canada, some US domestic investors have begun to bring money back home from overseas, providing support to the dollar.

However, a close look at cross-border capital flow data shows the US dollar will probably resume a broad-based decline before long, Reuters said.

"You've seen in the initial wave some US selling of foreign equities to shore up balance sheets," which has helped to push up the dollar, said Parker King, chief investment officer of the currency investment unit at Putnam Investments in Boston.

"When all this normalizes, you're going to be back to a dollar negative environment that is both fundamentally and structurally driven," said King, who oversees a $36 billion portfolio.

For now, despite news last week that the largest French investment bank BNP Paribas froze around $2 billion in funds exposed to US subprime mortgage debt, investors last week placed a net $10.9 billion in fresh money into US equity funds, the largest weekly increase since EPFR Global started tracking the data five years ago.

Foreign flows into US-domiciled equity funds were $11.3 billion, while a net $361 million left non-US-domiciled US funds, suggesting that US investors were repatriating funds.

Furthermore, according to AMG Data Services, US equity funds took in a net $21.6 billion in the month to Aug. 9, the biggest monthly increase since the month to March 15, when once again a surge in risk aversion caused US investors to cut their foreign exposure.

These dollar-supportive flows may be fleeting though. Once the liquidity and credit storm abates, concerns about global economic and trade imbalances will weigh on the dollar again.

Brad Durham, managing director of EPFR Global, said periods of heightened sensitivity to risk in financial markets have lately been averaging about 20 weeks.

"The downturn is quick and sharp and the recovery period takes a little longer to stabilize," Durham said.

The latest capital flow data for June, reported on Wednesday from the US Treasury, reflected a pullback in private investor demand for US assets, and an surge in official purchases, mostly from central banks, but this was prior to July, when the credit and liquidity problems began.

"In the past, declines in private inflows coupled with increases in official inflows often have been associated with dollar weakness and increased intervention to forestall currency appreciation against the dollar," said Gabriel de Kock, an economist at Citigroup.

Foreign private purchases of US long-term securities slipped to $94.8 billion, down from $136.7 billion in May. Official purchases jumped to $53.8 billion, the most since March 2004, and more than double the 12-month average of $21.9 billion.

Even more revealing, if buying and selling of US short-term securities are included, central bank purchases of US assets made up 99 percent of overall net capital flows into the United States in June.

Though equity market flows into the United States have picked up this month.

Bahrain Posts Robust Growth

Bahrain's total volume of trade surged to BD7.7 billion at the end of 2006, an increase of 15.3 percent and 13.9 percent in exports and imports respectively compared with the 2005 figures, an official report showed.

The Central Bank of Bahrain (CBB), in its annual report for 2006, said that the value of total exports increased from BD3.77 billion million in 2005 to BD4.35 billion in 2006 or by 15.3 percent. This increase was primarily due to a rise in the value of oil exports by 18.4 percent from BD2.93 billion in 2005 to BD3.47 billion in 2006. Although oil exports constituted the highest share of total exports (accounted for 77.7 percent), growth in the value of non-oil exports was much more substantial, growing by 4.7 percent in 2006 compared to 13.9 percent for 2005, Arab News reported.

The value of total imports increased from BD2.99 billion in 2005 to BD3.362 billion in 2006 or by 12.6 percent. Oil imports increased from BD1.57 billion in 2005 to BD1.84 billion in 2006, or by 17.6 percent.

This was mirrored in the growth of the value of non-oil imports, which increased by 7 percent in 2006, showing an increase of demand resulting from escalating levels of private consumption and investment.

The report said Bahrain enjoyed robust economic performance in 2006 as gross domestic product (GDP) grew by 19.7 percent at current prices and 7.8 percent at constant prices in 2005.

The strong rate of growth continued into 2006 rising from a net surplus of BD60 million or 1.4 percent of GDP in 2004 to BD257.3 million or 5.1 percent of GDP for the year 2005. Preliminary estimates for the year 2006 showed a government surplus of approximately 1 percent. In 2006, despite the impact of an expansion in domestic demand, Bahrain achieved strong economic growth in a relatively low inflation environment.

The reported consumer price index (CPI) increased from 107.1 in 2005 to 109.3 in 2006, a rise of 2.1 percent. Although Bahrain's growth rates have historically tended to follow international oil prices, the non-oil sector, which is estimated to have had a real growth of 8 percent in 2006, has been a significant component of the overall growth in Bahrain economy.